

Western Conference of Public Service Commissioners
June 17, 2008

Water Panel Remarks

Remarks of Commissioner John A Bohn
California Public Utilities Commission

Ladies and Gentlemen, thank you for inviting me to appear before you today. I am pleased to appear with this august panel. My disclaimer is that I am just one commissioner. So I cannot speak for the whole California Public Utilities Commission, only for myself.

Today, I will briefly discuss **two** topics, and we can delve deeper into each during questions:

- First, a quick California update regarding drought and state policy matters.
- Then I will discuss progress the Cal PUC is achieving in water policy, in conservation, and in energy conservation related to water.

California Update – Drought and Long Term Shortages

After a normal winter, with plenty of snowfall, California endured the driest spring season on record. Governor Schwarzenegger signed an Executive Order proclaiming a statewide drought in California and directing the Department of Water Resources and other entities to take immediate action to address the situation. The final snow survey of 2008 showed snowpack water content at only 67-percent of normal, and the runoff forecast at only 55-percent of normal. (Contrast this with Montana's situation: They are at 167-percent!) These conditions underscore the state's need for infrastructure improvements, aggressive conservation, and greater efficiency in water systems.

This is a fast-moving situation, and the details of what California's state agencies are doing will be developing.

There is one Governor's initiative that I am more directly connected with. That is the plan we are calling "20-By-2020." It is a commitment to reduce urban water use by 20-percent on a per-capita basis by the year 2020.

The water utilities that are subject to Cal PUC jurisdiction, the Investor-Owned water utilities, account for about a fifth of urban water use. We are working with them directly on this process, and CPUC staff are serving on the 20-by-2020 task force. We expect this will be an on-going program as our state begins to deal with the long-term issues associated with water use and water conservation in California.

California PUC Policy Matters

Now, turning to CPUC policy matters, you are all aware of the Cal PUC's "Water Action Plan." This document was meant to be, and truly has become, a guide to making policy. In every case that comes before our office, we attempt to apply the principles contained herein so that we produce:

- consistent and clear decisions and
- build a record and a set of expectations that
- will serve California's water service customers and
- California's water service companies.

There are six areas of objectives, and we are acting in all of them.

- We are working to maintain the highest standards of Water quality.
- We are working constantly to strengthen our water conservation programs to a level comparable to those of the energy utilities.
- We are attempting to promote water infrastructure investment where needed.
- We are building and continuing to maintain programs that assist low-income customers. This is a change – we are talking about low-income assistance, not just about low rates.
- We are doing our very best to streamline CPUC regulatory decision-making.
- We are attempting to set rates that balance investment, conservation and affordability.

Let me mention a few recent decisions of the CPUC that promote those objectives.

Example: Cost of Capital for Memo Account

On May 29, the Commission voted out my alternate decision approving the use of the authorized rate of return for funds used during construction by Cal-American in the San Clemente Dam project memorandum account. Why the authorized rate of return? The CPUC routinely allows only the 90-day commercial paper rate for certain types of memorandum accounts. Usually memorandum accounts are used for projects that do not affect the overall capital situation of a company. However, this is a big project, to be accomplished over a substantial period of time. It has to go ahead. And we do not want anyone operating or investing in the Company to stint on this project because it is not fully remunerative. I think this is a strong statement regarding infrastructure and operations. It bolsters our Water Action Plan objectives.

Example: Appropriate Rates for All Customers

Two weeks earlier, on May 15, the commission voted out another alternate decision I wrote related to Cal-American's Sacramento and Larkfield districts. In that case, there was a small district with high and rising costs, Larkfield, and a larger district with more stable costs, Sacramento. The Company proposed sharing costs between the districts to protect the Larkfield customers from high and rising costs. The judge did not accept the Cal-Am proposal, but she still offered a small subsidy to Larkfield from Sacramento.

I rejected the idea outright. My alternate proposed decision, which prevailed at the Commission, keeps the costs separated. Larkfield customers must (and should) pay the high costs of providing water in their community while Sacramentans may enjoy low and flat terrain and low rates.

What's going on here? This is a problem for small, isolated water utilities, with the accent on "isolated." And I offer the contrast with electric rates, where the system is connected over a wide area. In the Larkfield and

Sacramento case, there is no connection between the two districts, no benefit to the system overall from consolidation. Sharing costs would be a pure subsidy of one group of customers from the wallets of other customers.

On Conservation Matters

Moving away from specific company cases and towards policy matters, the commission has been moving forward with deliberate, if not blinding speed. (“Deliberate” is government-speak for “slow.”) And in *“matters animal, vegetable, or commissional”*¹ sometimes deliberate speed is better. It allows everyone to fully understand what is going on.

We are instituting decoupling through Water Revenue Adjustment Mechanisms – Water RAMS. Of course, revenue adjustment implies rate adjustment.

¹ You will recognize the reference to the Modern Major General in the Gilbert and Sullivan’s *Pirates of Penzance*.

We are helping customers to see a more powerful signal to conserve water by building in a higher percentage of total costs into the volumetric part of the rate.

We are instituting higher tiered rates, so that customers who use higher volumes of water receive an even stronger price signal.

Each of those policies has its pluses and minuses, and perhaps we will debate them here. But each is being fully discussed and vetted, and implemented.

One more thing about high tiered rates: They also help to achieve another objective of the Water Action Plan – they hold down the costs faced by the users who consume the least. One expects that policy, therefore, to be a benefit to those of lower means.

On Energy Efficiency Matters

Now that we have discussed saving water, let us discuss saving energy. After all, we are told that about 19-percent of electric energy usage in California is in the water industry. In December last year, the Commission approved

a series of one-year pilot programs for the largest regulated energy utilities through which they are developing partnerships with water agencies. They will undertake specific water conservation programs and measure the results. The utilities will spend about \$6.4 million on the effort, and we expect that the results of the pilots will result in knowledge that can be applied generally across water utilities in the future. In essence, we want the water utilities in California to be acting more like the energy utilities in their efforts both to reduce water consumption and to make the production and distribution of water to be as efficient as possible from the perspective of energy usage.

Now, we are in the process of expanding the pilot programs to include several investor-owned water utilities. The California Water Association requested that some of the dollars left over from the December decision be applied to experiments with induction motors, variable frequency pumps and drives, and supervisory control and data acquisition systems operated at optimal efficiency levels.

This project is still under consideration, and I hope it will be approved sometime in the near future.

Wrap-up

Overall, we have immediate water needs related to drought, and we have long-term needs related to California's chronic and continuing shortage of water compared to the demands of the millions of people who live in our state. And as a fisherman, I think it is part of my job to worry about the fish!

The CPUC is acting to respond to both the Governor's call for greater immediate conservation and efficiency, and also is responding to the need for long-term programs.

Thank you.